

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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In the Matter of

Federal State Joint Board on CC Docket
No. 96-45 Universal Service
Telecommunications Act of 1996

Forward-Looking Mechanism for High
Cost Support for CC Docket No. 97-160
Non-Rural LECs

FCC MAIL ROOM

CC Docket No. 96-45

CC Docket No. 97-160

**COMMENTS OF THE PEOPLE OF THE STATE OF
CALIFORNIA AND OF THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA ON THE FURTHER NOTICE OF PROPOSED
RULEMAKING REGARDING THE LEVEL OF
LOCAL USAGE IN UNIVERSAL SERVICE**

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I. INTRODUCTION AND SUMMARY

The People of the State of California and the Public Utilities Commission of the State of California (California or CPUC) submit these comments to the Federal Communications Commission (FCC or Commission) on the Further Notice of Proposed Rulemaking (FNPRM), Sections IV and V, regarding the level of local usage to be included in the definition of universal service. The FCC tentatively concludes that a local usage component should be included in the list of services designated for universal service support to ensure that consumers realize the full benefits of affordable access to

the local exchange network. In this FNPRM, the FCC specifically seeks comments on:

(1) the potential ways to calculate the level of local usage to be included; (2) whether the impact of increased Internet usage on average call length should be considered and how; and (3) whether the local usage component should differ for residential and business service. (FNPRM, para. 179) The FCC also asks if there is a connection between the amount of usage that the cost models assume to determine specifications such as switch size and average cost per minutes, and the amount of usage in the definition of universal service. The FCC tentatively concludes that these measures of local usage serve different purposes and may be determined independent of each other. (FNPRM, para. 180.)

California's comments focus primarily on the level of local usage to be included in the definition of universal service for residential and business consumers. As a general principle, the CPUC recommends that the FCC adopt a measure of local usage that is consistent with the levels of local usage included in states' definition of universal service. The CPUC proposes that the FCC set a level of local usage that does not exceed the amount of local usage included in measured rate residential service offered by California local exchange carriers (LECs). The FCC should also include flat rate residential service for federal universal service support, to the extent that an eligible telecommunications carrier (ETC) offers this service to residential customers. The CPUC also recommends that no amount of local usage be provided to business customers free of charge (i.e., no local usage allowance), but that ETCs offering flat rate business service should continue to do so and be able to receive federal universal service support.

II. LOCAL USAGE AS A COMPONENT OF UNIVERSAL SERVICE

The CPUC supports the FCC's tentative conclusion that a local usage component should be included in the definition of universal service, particularly for residential customers. The CPUC believes, however, that the amount of local usage for purposes of the federal universal service mechanism should be set consistent with the levels of local usage that states currently require. Setting a level of local usage in the federal definition of universal service that is above states' prescribed levels would impose additional service requirements on carriers subject to state jurisdictions and would necessitate revisions of states' universal service definitions. The CPUC recommends that the FCC adopt a level of local usage that does not exceed what California carriers are currently required to provide as part of measured service.

A. Local Usage for Residential Customers

In its Universal Service Decision (D.) 96-10-066, the CPUC adopted a set of service elements comprising the definition of basic service that carriers providing local exchange residential service are required to provide, at a minimum, to residential customers. Included in the CPUC's definition of basic service is the customer choice of flat or measured rate service. The CPUC's requirement that LECs and competitive local carriers (CLCs) offer a choice of flat or measured service to residential customers provides for a certain level of local usage included in the definition of basic service. With flat rate residential service, customers can place calls generally within a radius of 12 miles at no additional charge. Large non-rural California LECs offer a \$3.00 usage

allowance that applies to all local calls and the three zones in Zone Usage Measurement (ZUM) exchanges as part of their measured residential service.¹

The CPUC further requires all LECs and CLCs to provide Universal Lifeline Telephone Service (ULTS) to qualifying low-income customers, at or below CPUC-established statewide rates. Most small LECs in California offer flat rate ULTS service. All the large and mid-sized California LECs offer both flat and measured rate ULTS service. Customers subscribing to measured rate ULTS service are provided a monthly allowance of 60 untimed local calls, with a charge of \$0.08 per call for calls beyond the 60-call allowance.

It would be consistent with CPUC rules if the FCC sets a minimum level of local usage designated for federal universal service support that does not exceed the \$3.00 usage allowance included in measured rate residential service offered by California LECs. This should be the minimum level of local usage that designated ETCs must provide to customers without additional charge in order to receive federal universal service support. The FCC may also consider adopting a different local usage allowance for low-income customers under its Lifeline program, similar to the allowance for measured rates ULTS service offered by California LECs.

Flat rate residential service necessarily satisfies the minimum local usage requirement; hence, ETCs offering this service should be able to receive federal universal service support. The CPUC views the inclusion of flat rate service for federal universal

¹ Included in the calling areas in a ZUM exchange are three zones: Zone 1 (0 to 8 miles), Zone 2 (9 to 12 miles), and Zone 3 (13 to 16 miles). With flat rate residential service, calls to or from Zones 1 and 2 are local calls and are not measured, but calls to Zone 3 are measured. With measured rate residential service, all calls to a local exchange, or ZUM Zones 1, 2, and 3 are measured.

service support as a way that the FCC could consider the impact of increased Internet usage since flat rate service would be the economical choice for Internet subscribers.

B. Local Usage for Business Customers

The CPUC does not include small business customers in its high cost subsidy mechanism, and currently does not prescribe a minimum level of services to be provided by LECs and CLCs to business customers. California's non-rural LECs (i.e., Pacific Bell and GTE California, Incorporated) offer only measured rate business service without any usage allowance. The mid-sized California LECs similarly provide no usage allowance in their measured rate business service, while most small rural LECs offer only flat rate business service.

The CPUC has previously advocated at the FCC that businesses be excluded from federal universal service support.² Consistent with this position, the CPUC recommends that no local usage allowance to business customers be included in the FCC's definition of universal service. The CPUC reiterates its view that business customers are expected to be an attractive market in a competitive environment. This attractiveness should lead multiple carriers to compete for business customers before similar competition reaches residential customers, resulting in lower prices for business customers. Moreover, businesses have the opportunity to recover the costs of telephone service through the price of goods and services they provide. All these considerations persuaded the CPUC to exclude business customers from its universal service subsidy program and should also be reasons for the FCC to not set a minimum level of local usage that ETCs must provide

² See CPUC's January 9, 1997 Reply Comments on the Recommended Decision, CC Docket No. 96-45, pp. 2-3.

business customers at no additional charge. The CPUC, however, recommends that flat rate business service, to the extent that it is currently offered by an ETC, should be supported under the federal universal service mechanism.

C. LOCAL USAGE AND COST MODELS

The CPUC concurs with the FCC's tentative conclusion that there is no necessary connection between the amount of local usage that the cost models assume to determine specifications such as switch size or average cost per minute, and the amount of usage that is part of the definition of universal service (FNPRM, para. 180.) The CPUC views the latter as the minimum amount of local usage that ETCs must offer to customers, as discussed in the preceding section.

The minimum level of local usage included in the definition of universal service may or may not be the amount of local usage assumed in deriving the cost of universal service provision in high cost areas. The CPUC agrees that the forward-looking cost methodology that the FCC employs should necessarily consider all local usage, not just the minimum level required to be provided customers, in determining switching capacity and average cost per minute. Furthermore, the FCC may assume a certain level of local usage in apportioning switching costs to the provision of universal service. This measure, for example, could be in terms of the number of minutes per month used by an average residential customer.

III. CONCLUSION

The CPUC recommends that the FCC adopt a level of local usage consistent with the CPUC's definition of basic service to residential customers. The FCC should not prescribe a minimum level of local usage to be provided at no additional cost to business customers. Flat rate service to residential and business customers should be supported under the federal universal service mechanism to the extent the service is offered by ETCs.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Mary Mack Adu, hereby certify that on this 16th day of October 1997, a true and correct copy of the foregoing in **COMMENTS OF THE PEOPLE OF THE STATE OF CALIFORNIA AND THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA ON THE FURTHER NOTICE OF PROPOSED RULEMAKING REGARDING THE LEVEL OF LOCAL USAGE IN UNIVERSAL SERVICE** was mailed first class, postage prepaid to all known parties of record.

/s/ MARY MACK ADU

Mary Mack Adu